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NOTES FOR AN ADDRESS

by

THE HON. DONALD S. MACDONALD

to the

INDEPENDENT PETROLEUM ASSOCIATION OF CANADA

CALGARY, ALBERTA

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Mr. Chairman, ladies and gentlemen:

I would like to thank you very much for the invitation to come to Calgary tonight to address the Association.

This is the first public milestone in my tenure as Minister of Energy, Mines and Resources as it is my first major speech to a public audience since assuming the portfolio on January 28. I did make one in the House of Commons during the Throne Speech debate last month - but at times it's doubtful in there if anybody is listening, particularly the Opposition!

Since January 28 I have been undergoing a crash course in the areas for which I am now responsible, and I am very thankful that Pat Mahoney is with me in the Cabinet to help me with his knowledge and experience.

But while this is my first major speech in Calgary or any other city as Minister, I am happy to say that I am not a stranger to some members of the Association. I see quite a few faces here tonight whom I have had the pleasure of seeing last month when I made an early visit to Alberta after taking over my present job.

There's nothing like on-the-job training, and in energy issues this province is a good place to start. Accordingly, a few days after my appointment, I arranged a meeting with Premier Lougheed which took place last February 17th. I felt it vital for me to hear first hand Premier Lougheed's views about energy issues as they affect Alberta and to develop between us along with Hon. Don Getty and Hon. Bill Dickie, the kind of personal relationship and insights into one another's policies and problems which will allow constructive and co-operative

Federal-Provincial efforts.

On March 2nd I came back to Calgary to obtain a briefing from Panarctic Oils Limited on their emerging role in the Canadian energy economy and to accompany the Directors and officers on a three-day visit to the high Arctic to see the exploration game in action.

And throughout I have had busy learning weeks; weeks of meetings in Ottawa with Departmental staff, industry representatives, foreign government representatives and discussion with my colleagues in government.

And in my travels to the Pacific, Arctic and Atlantic regions, it was drawn so clearly for me again that this is a vast land with a great many varied interests and differences. But, as they say of men and women, vive lâ difference!

In talking to Premier Regan, a very proud Nova Scotian, we discussed the problems of coal mines that were operating long before Canada became a federation. As well, there's a tremendous interest in offshore drilling, and the federal government has agreed along with Nova Scotia and New Brunswick to review the most recent report on Fundy tidal power.

Any day now you may find the resolute Mr. Regan challenging Premier Lougheed for the "energy province" title.

I am reminded of the questioner who asked Napoleon what were the best kind of Generals to pick. "Lucky Generals" was Napoleon's reply. Your industry is performing at an ever more profitable rate and the problems of the industry are the problems of demand for your products. In times like these, progress can be made for Canada

and I hope I have a chance to be a "Lucky Minister".

What is the situation in the industry as I start?

The recent Dow Jones survey of 13 early-reporting oil and gas companies showed total 1971 year net of \$338 million, up almost 32-per-cent from a year earlier.

I don't want to anticipate the March 31 first quarter figures, but, in spite of a lot of wailed-about misery from some, on the state of our business sector, we face the awful prospect of the best three months on record for the oil industry.

But don't get me wrong. We all know the industry faces critical problems, I believe the best way to tackle them is for the utmost co-operation and dialogue between governments at all levels and all the sectors of the industry.

A case in point came up in the House a few days ago when both the Conservatives and New Democrats expressed opposition to remittance of \$6 million of sales taxes paid by Great Canadian Oil Sands Ltd., between 1963 and 1967.

Finance Minister Turner summed up the Government's views concisely February 28 in the House:

"I think that probably in the mind of the government at the time the public interest involved a major pioneer project for extracting oil from the Alberta Tar Sands, something which may be invaluable to this country in the years ahead."

The company had incurred serious financial losses since the outset of production and sought remission of sales taxes which had not applied when their plans were being drawn up - taxes which were dropped across the country after the plant was built. Such remissions under the Financial Administration Act

are normally considered in light of the public interest.

I have spent the last few weeks getting a personal assessment of the problems and prospects facing the energy industries of Canada, and the vital part played by this sector in our total economy.

As I said I have had talks with several premiers and industry leaders, and I hope to meet with the remainder in the near future.

My first meeting with the National Advisory Committee on Petroleum was a very frank and informative session, which I believe has set the stage for meaningful continuing dialogue.

Therefore while there are critical problems which must be faced, I don't think continuing cries of "Wolf" add very much. The public today is better informed than ever before, and scepticism is stepped up when arguments on the one hand and figures and facts on the other are totally out of joint.

My firm conviction is that we must adopt national strategies based on a broad consensus if our policies are going to meet the critical problems ahead.

Our aim without question is to ensure that our energy industries make an optimum contribution to Canada's economic wellbeing and to an improvement in the quality of life for Canadians.

In this context, let's turn to a discussion of some current issues.

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CURRENT ENERGY ISSUES

We tend to think of the energy economy in terms of size and growth but major issues and problems confront this sector as a dynamic force in the Canadian economy. These issues are important and complex. They demonstrate the need for an integrated inter-energy approach, if the national interest is to be fully served.

COAL

Nova Scotia and New Brunswick coal operations were important sources of employment and income over many years for certain depressed regions in the Maritimes. They have been maintained by costly support programs designed to get this industry on a self-sustaining basis.

In Ontario, coal is still a very important energy source but the province is totally dependent on U.S. coal, which has been associated with energy supply crises in that country. Should western coal become a supplementary source? Coal reserves are great but there is urgent need of a much better appraisal of quantity and quality.

Exports have expanded rapidly despite growing pains in the industry and questions about optimum rates of development.

ELECTRIC UTILITIES

The electric utility industry, in the past extensively based on hydro sources, is now moving towards other energy sources. The mix of primary energy sources employed assumes new importance

in energy policy considerations.

Lowest cost electrical energy supply remains, of course, a principal objective.

Efficient generation, transmission and distribution will minimize the capital investment burden. Many challenges in this industry relate to its very large capital requirements. It currently employs 15% of the total business capital put to work annually in Canada.

Capital demands are concentrated in provincial bond markets which may be too narrow to support total needs. Steps taken to make capital supply easier for the electric utilities during periods of limited supply can create hardships for other industries, including other energy industries. I mention this one problem of capital requirements in making brief reference to the electrical utility industry because it is basic to various developments in this industry such as the future of nuclear power generation, the pooling of power in the Atlantic Provinces, the proposed James Bay development, the huge electric utility capital demands of Ontario accounting for about half of the country's total capital requirements for utilities, the development of the Nelson River and transmission system, the meeting of future power demands on the Prairies, and further power development in British Columbia.

Most of the hydroelectric power sources in Alberta have been harnessed. Coal abounds, but, thermal power plant siting also depends on abundant cooling water.

NUCLEAR POWER

Turning to the uranium and nuclear sector, we have a number of fascinating and challenging problems. This audience is fully aware how difficult oil and gas marketing problems can be at times; today in the world uranium industry the marketing problem could be described as chaotic.

Because of the marketing uncertainties, there is not the incentive to explore in Canada and we therefore have two problems: how to help bring some order into the present marketing mechanism and how to encourage exploration in Canada so that the country's share of the world uranium market will not decline significantly.

Federal government stockpiles of uranium accumulated at a cost of \$110 million during the past nine years, have kept the industry and its mining communities alive. How can we dispose of inventories without disrupting the industry and protect the government's investment?

In view of the rapidly-rising demand for enriched uranium outside Canada, should we participate in the development of a uranium enrichment plant? This would be at least a billion-dollar expenditure. How do you rate its priority amid competing demands for the financing of projects to produce energy in Canada? Careful assessment of projects is required on a country-wide basis.

This leads to the very broad question of whether the federal government, which is already heavily involved in financing many segments of the uranium and nuclear energy industry, should become even more extensively committed. There is the involvement in mining through

Eldorado Nuclear Limited, in research and development through such agencies as Atomic Energy of Canada Limited, in the support of the construction of heavy water production plants and of prototype power reactors, and then there is the question of whether further support may be needed for provincial electric utilities in the interests of establishing a policy for the most efficient use of nuclear energy across the country.

OIL AND GAS

The oil and gas industry accounts for about three-quarters of our total energy supply.

Consumers of energy naturally see the industry's problems in a somewhat different light from the producing areas. Producers naturally hope for the highest prices to maximize revenues and support the risks of exploration. Consumers want lowest possible cost to encourage industrial activity and keep living costs down, so far as home heating and transportation are concerned. Oil and gas price increases touch off debates across the country. In the House of Commons, M.P.'s attack or defend price changes in no uncertain terms.

Other issues include difficulties in estimating potential reserves of oil and gas, foreign ownership and control in this industry, Canada-U.S. oil relations, the 'national oil policy' line, costs and benefits of northern pipelines, the timing of full-scale tar sands operation, the government's participation in Panarctic, and security of oil supply in view of possible international emergencies.

We could go on, but the broad range of concerns about oil and gas is clear. None of them can be dismissed out of hand by anyone who looks at oil and gas matters from the point of view of the best interests of this country and all of its citizens.

A NEW APPROACH TO ENERGY PROBLEMS

The foregoing definition of current issues leads to some very basic observations about our energy industries in a national context.

National priorities must all compete for the same stock of capital and of goods and services.

Huge development currently envisaged for Canada's energy sector poses problems beyond the scope of any single region or industry. This development will require careful coordination.

Some time ago, industry estimated that potential and possible programs for oil and gas in Canada in the '70's would require \$25 billion, about \$16 billion to be generated internally, leaving \$9 billions to come from investors or from borrowing. That is a measure of the financial challenge within the oil and gas sector, aside from other energy projects. Moreover, the Mackenzie Valley Pipelines Project has taught us early that estimates can escalate dramatically. The Northwest Project Study Group currently estimates costs of this project at \$5 billion, almost double its first estimate because of larger diameter of pipe, increased interest charges, and rising costs in general.

The marketing of frontier oil and gas will have obvious impacts on your balance sheets and a dramatic effect on the national

economy as well. The harnessing of these and other energy resources calls for study of the adequacy of our resources at given prices for the whole range of energy sources including coal, oil, gas and nuclear power. In some cases, new technologies will be required, in addition to heavy capital investment, and alternative projects will need to be weighed in assessing regional benefits to be derived from energy development.

The earlier years of our oil and gas development told the story of an industry in search of markets and capital for expansion. In two short decades, we have arrived at a position where markets now seek out our products and unprecedented capital investments will be required.

Over the years, to 1975, it is estimated the total energy sector will require some \$4 billion annually for development, thereafter rising to \$7 billion each year by the end of the decade. Capital markets traditionally have served the energy industries well, but, it is obvious that new approaches will be required to enable them to handle the demands of the future.

KEY RELATIONSHIPS

Foremost among national concerns, relating to the energy sector, will be our relationship to the United States in coming months. I would like to inform this audience, that I will be meeting with Secretary Rogers Morton of the United States in Washington in the very near future to develop better insights into their policies for the acquisition of oil and gas supplies for their economy. Let me make clear that these talks with Secretary Morton

will in no way involve negotiations on any subject. We both feel that it would be useful to meet for the first time and to learn a little more about our respective national attitudes.

Obviously, greater co-operation in federal-provincial relations will be needed to establish national goals and guidelines for regional development policies.

FEDERAL-PROVINCIAL CO-OPERATION

Here in Alberta of course, you are keenly aware of the important contribution which the Provincial Government can make towards the formulation of national policies for our energy industries. I recently tabled in the House, copies of an exchange of correspondence with Hon. Donald Getty, Alberta's new Minister of Federal and Intergovernmental Affairs, which I believe signifies the close consultation we seek on all matters related to energy likely to effect national policies and your industry in Alberta.

My position was outlined as follows in a letter to Premier Lougheed, covering our discussions:

"... We touched on such matters as policies for the development of the Alberta Oil Sands; further exploration and development of Alberta's oil and gas potential and the impact of various costs and royalties on industry incentive; the price of oil and gas in the national and international market place; the development of the Federal oil and gas resources; northern pipelining and its impact on Alberta; sulphur; and many other key topics. The relationship between the Government of Canada and the Government of Alberta in all of these items will require a sustained and effective effort at communication to develop a mutual understanding of our respective interests and responsibilities."

In reply, on behalf of Premier Lougheed, Don Getty said -

"We believe considerable progress has been made in establishing effective channels of communication between our governments and in recognizing the need for Alberta's views to be considered in the formulation of National Energy Policies. We are prepared to cooperate with you at all times in these matters so that the interests of Albertans and Canadians are adequately protected. We are anticipating a continuing effective liaison between our Governments on energy matters in the future."

ENERGY POLICY STRATEGIES

We must now ask - whether the federal role, as evidenced in the past, is adequate for future complexities in energy relations - whether they be industry-public, industry-government, federal-provincial, Canada-U.S., or international

Canadians ponder what the country as a whole gets out of its resource development. Energy policy decisions were often based on restricted information without reference to a broad strategy for energy development and use. While past policies promoted today's viable energy sector, it is evident that the country is now approaching the time when a more comprehensive approach to specific energy problems will be required.

To this end, the federal government is evolving an energy policy to meet the fast-changing circumstances of the 1970's. Solutions in the future, will be based on appraisals of the entire energy sector within a strategy for Canadian economic and social development. In the past, we tended to treat energy problems in isolation, in a regional context, or confined to conditions for an individual energy source.

A broader strategy in a national context is required if only to meet Canadian energy demands expected to quadruple by the year 2000.

If an energy policy is to be acceptable in a country-wide sense, it must contribute to broad national aims and to specific economic and social objectives such as economic growth, regional benefits, full employment, increased international trade, equitable distribution of rising incomes, and an improved quality of life.

To be realistic, policy makers must face up to such policy constraints as are imposed by the adequacy of our resources, financial needs and capital availability, balance of payments directions, and the realities of federal-provincial relations.

The federal government has the responsibility of setting broad policy options which reflect the way Canadians want to live and develop their country. The options selected, whether to maximize resource development and export of energy sources or other alternatives, would in turn set terms of reference for an energy policy.

To administer such a policy and influence energy developments, the federal government has available to it a large number of policy levers. These include regulations relative to the disposition of oil and gas rights on federal lands; subsidies and loans for energy activities ranging from R&D grants for nuclear generation to coal production support programs; provision of transportation and communication facilities and other infrastructure, particularly in the north; export and import controls of various kinds; industrial, tax and corporate policies; safety and environmental regulations; and

legal and constitutional constraints.

I would like to highlight the importance of a national overview of all key energy policies and developments by reference to capital requirements and financing.

Growth and direction of the energy industries in the 1970's assumes tremendous capital costs. In fact, the potential size of these projected outlays raises serious questions about Canada's ability to handle all projects without distorting or damaging other sectors of the economy.

A comprehensive approach to this challenge means continuing assessment of energy resources and of energy requirements, including forecasts of related capital requirements, so that, to the extent possible, projects can be so staged as to minimize strains on the economy.

Timing of financing is most important when individual energy projects run into billions of dollars.

Any project can have a significant impact on the economy and, if several were to be bunched within a relatively short period of time, there could be substantial economic distortions and, in fact, the costs to the economy expressed through inflation, a rising foreign exchange rate, and reduced exports in employment-intensive industries could greatly exceed direct national benefits of these projects.

The federal government therefore has an increasing responsibility to ensure full consultation among energy project groups on matters concerning the timing and magnitude of their investment programs.

While there is some concern that the financing of energy projects forecast for the 1970's could go beyond the ability of the economy to absorb them, a greater concern relates to the danger in bunching of certain projects in a relatively short period.

The country's energy policy must, therefore, provide for an adequate forecast and monitoring of capital investment intentions and for mechanisms and procedures which, given the cooperation of the provinces and industry, would provide a means of accommodating all essential projects, as now forecast, within an acceptable time framework.

No discussion of energy policy would be complete without specific attention to environmental issues.

ENVIRONMENTAL CONCERNS

With my concurrence, the Minister of the Environment announced in Vancouver on March 13th last, that exploration and drilling for oil would be excluded from sensitive offshore zones. Our departments will work together on the definition of these offshore zones which in any case, will constitute a very small percentage of the total offshore acreage.

I want to confirm the government's position that subject to this zoning, exploration and drilling will be encouraged in the offshore frontier, in strict adherence to regulations currently enforced by my department, and judged among the most stringent anywhere in the world.

On the international front, the United Nations Conference on the Human Environment at Stockholm, will face up to problems of

continued prosperity and the quality of life on this planet and will deal directly for the first time, with the international aspects of resources management and environmental quality.

We are pleased that Canada co-sponsored the original U.N. resolution to hold such a conference, and that from the beginning Canada has played an important role in making sure that the Conference will address itself to serious environmental problems in a constructive and realistic manner, rather than become the means by which the widespread public concern for the environment might be used for short-term political advantage by any nation or group.

CONCLUSION

In the last few years we have all been given some hard practical lessons on the need for the federal and the provincial governments to work closely together. On economic matters, initiatives taken in the apparent best interest of a particular province have sometimes worked against that province's interest.

A recent example is the chicken and egg war where a province acted to protect its own producers in a way that appeared to be in its best interest. This action of course was seen in other provinces as against their interests and they took steps not just to nullify but to reverse the benefits to the first province. While the Federal Government had the constitutional authority to act, we did not do so initially in the hope that the provinces could come to some reasonable accommodation. This they did not succeed in doing and eventually we had to play a role.

The chicken and egg war illustrates the damage which competing provincial objectives can create for respective provincial economies as well as the national economy, and the need for the development of national goals.

We are fully aware of the importance to Alberta of its well managed resource base and the objective of the provincial government to employ its resource revenues in achieving a broader diversification of the provincial economy. We are looking forward to being consulted by and working with the Alberta government on the logical next step for the province's development.

Increasingly complex energy issues face Canada in the 1970's. An integrated policy based on inter-energy and inter-regional considerations, must replace past approaches to energy issues.

The essential role of the federal government is to try to establish guidelines which will respond to priorities reflected in a national consensus and, of course, to provide overall coordination for the necessary processes needed to make the policy work.

In completing these remarks, let me assure you I am very conscious of the matters that are directly concerning members of your industry Association. I know you are concerned about gas export formulas, the need for higher gas prices at the well-head, the question of end-use control on gas removed from the province, the manner in which northern pipelines will be managed and frontier oil and gas marketed, the sensitivities of federal-provincial relations in oil and gas matters, positions that might be taken on ownership and control, the costs of environmental control, Canada/U.S. oil relations and their impact on marketing and capital availability -- and about

the position your new Minister of Energy, Mines and Resources is going to take on these and other critical issues.

I intend listening to you and working with you on these important energy issues.

We live in a world in which energy requirements are going to double in the present decade and possibly increase by almost five times over the 30-year period to the year 2000. Canada has significant energy resources, even on a world scale, and therefore Canadians have an obligation to see that these resources are used to best advantage in both a national and an international sense. It is a growing responsibility worthy of your most penetrating thought and planning in industry and in all levels of government. It's my job to see that all of the good ideas are channelled into constructive policies which are workable and potentially beneficial to all parts of Canada.



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Date Due

Pam: 042 [MacDonald, D.] 21/3/72

MACDONALD, Donald, S.

Notes for an address to the Independent Association.....

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